

## Family remittances – Strong in June despite signs of an economic cooldown

- **Remittances (June): US\$5,152.5 million; Banorte: US\$4,944.7mn; consensus: US\$5,000.0mn; (range: US\$4,783.0mn to US\$5,191.0mn) previous: US\$5,172.5mn**
- **Inflows grew 15.6% y/y, albeit marginally lower in absolute terms after May's new historical high, which was helped by seasonality. Year-to-date, remittances have advanced 16.6%**
- **The number of operations was reduced to 12.6 million, although still at a double-digit pace (11.4% y/y). Meanwhile, the average amount sent accelerated strongly, standing at US\$407.77 (+3.7% y/y)**
- **Seasonally adjusted, inflows grew 1.6% m/m, more than reversing the 1.4% of drop seen in May and a new historical high. This is very relevant considering signs of a deceleration in the US economy and employment among Mexican migrants**
- **Given the performance in 1H22, we maintain our US\$56.5 billion estimate for full-year inflows. Nevertheless, risks may be skewing slightly to the downside as fears of a recession in the US remain elevated**

**Remittances above consensus in June.** The amount stood at US\$5,152.5 million, higher than consensus (US\$5,000 million) and our call. Growth remains high at 15.6% y/y, with the pace even inching higher at the margin. In absolute terms, the amount was modestly lower, albeit quite elevated when considering that May is typically the strongest period of the year as more resources are sent due to Mother's Day. Overall, results remain very positive. In this sense, inflows have reached US\$27.6 billion year-to-date, up 16.6%. This is even more notable when considering some tentative signals of a slowdown that should be heeded carefully. Among them, regular gasoline prices reached new highs since the series is available (1990), reaching US\$4.87 per gallon in the period. In our view, this is important as it impacts households' purchasing power, with real average hourly earnings more negative (-3.6% y/y). Retail sales grew 1.0% m/m, but we are very cautious with this figure as it is distorted to the upside given that it is expressed in nominal terms. On the other hand, industrial production (in real terms) contracted 0.2% m/m, with the 'employment' component within the ISM manufacturing also declining.

**Partial reversal lower in the number of operations, but with the average amount sent almost at a historical high.** It should be mentioned that May typically shows a higher amount in the former, while being lower in the latter. These reversed to some extent in June. The number of operations reached 12.6 million, almost 1 million less than in May, which was a new historical high. Nevertheless, the average amount sent surged to US\$407.77 from US\$379.90, up 16.7% y/y and barely below its historical high of US\$409.61 reached in December 2000. This is very favorable, especially when factoring in higher pressures in the cost of living relative to wages.

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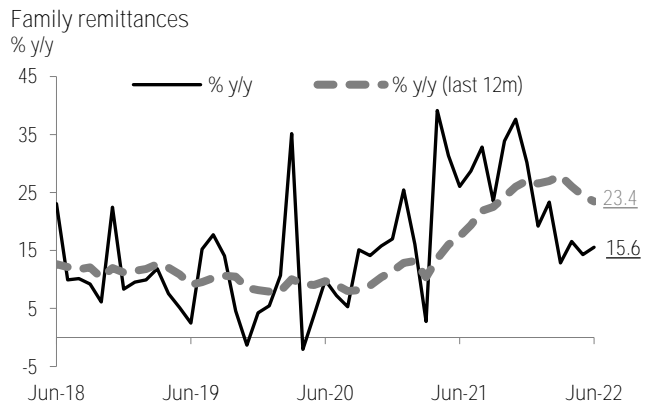
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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*

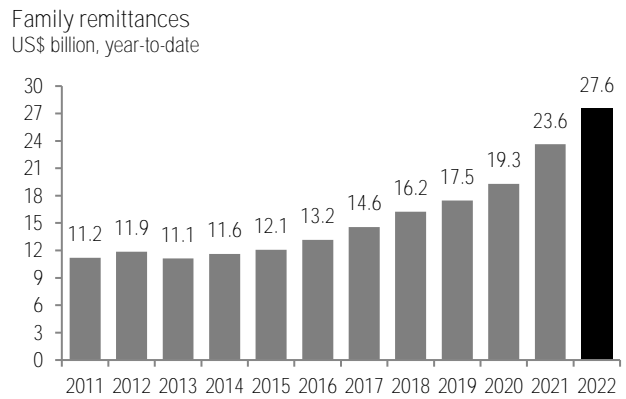


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In our view, this suggests that migrants have been able to adjust their consumption baskets as a result of price changes, shielding them at least partially from being affected by those items that have had the most sizable increases (e.g. within food and energy).



Source: Banorte with data from Banxico



Source: Banorte with data from Banxico

**Very healthy sequential advance, reaching a new high.** Seasonally adjusted, remittances gained 1.6% m/m, managing to more than reverse the -1.4% drop seen in May. As a result, the amount reached US\$4,829 million, which is a new historical high. In our view, this is even more positive given signs of some setbacks in the US labor market during the period. The US economy kept creating jobs, with nonfarm payrolls at +372 thousand and the unemployment rate for a fourth month in a row at 3.6%. For Hispanics and Latinos, the latter metric was also unchanged, standing at 4.3%. Nevertheless, we calculate that among Mexicans, it increased to 4.5% from 4.2%. In this respect, we saw a fall of 495.8 thousand in the working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– after two months reaching new maximums, with the total at 27.8 million. Total employees fell by 307.5 thousand, with the largest drop in ‘natives’ at -291,668. The labor force was also lower, which could be because of the rise in COVID-19 cases and voluntary lockdowns (as the government has not reimposed mobility restrictions again). Lastly, we note that the construction sector, which is an important employer of Mexican migrants, showed also lower housing starts, construction permits and existing home sales in June. We think this is starting to reflect the effect of the Fed’s hiking cycle. Despite of this, the payrolls report showed 13 thousand new positions in this sector, which is positive despite decelerating at the margin.

**Short-term dynamics will be more relevant as economic risks are on the rise.** Given remittances’ growth already observed in 1H22, we remain confident about our full-year forecast of US\$56.5 billion. For this to be achieved, an average of US\$4,823 million per month are needed. This is higher than the last twelve-month average (US\$4,625.3). Despite of this, we think this remains quite feasible given recent surprises.

Nevertheless, and as mentioned in our latest reports, downside risks are on the rise, with the latest data pointing in this direction. In this sense, we highlight that US economic weakness –with 2Q22 GDP surprising to the downside at -0.9% q/q saar– has not translated yet to a significant loss of labor opportunities.

This may partially isolate inflows' strength due to a more modest economy, albeit with risks of an eventual impact still present. We do not rule out that this could be reflected more clearly by the end of the year or into 2023.

More importantly though, we highlight that several companies have been warning about job cuts and/or hiring freezes given this economic outlook. Among them, we note tech giants such as Amazon, Google, Netflix, Meta, Microsoft, Tesla, and Twitter, among many others. Corporates in other sectors have also announced similar initiatives. In this respect, initial jobless claims have been increasing since the end of March and are currently at their highest since November last year. This is also a warning sign that the slowdown –partially explained by the Fed hiking cycle– is starting to creep slowly into the job market. Hence, this situation could also affect Mexican migrants in the US, and ultimately, remittances. It will be very important to watch the nonfarm payrolls report for July, with consensus estimating a net creation of 250k positions from 372k in June.

Lastly, we will be also looking closely at the average amount sent. In our view, this is a relevant metric to assess the degree at which inflation is weighing on migrants' cost of living. This could reduce available resources that can be sent even if the labor market stays resilient. At least judging by today's report, evidence is scant of a sizable impact so far. Nevertheless, it is our take that the price outlook remains quite difficult both in the US and Mexico. If pressures prove even more persistent, headwinds for our country's consumption growth will likely increase.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivios Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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